ANZ Research

Quarterly Survey of Business Opinion – 2019 Q3

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Data summary

	Latest
Headline business confidence (actual)	-40
Headline business confidence (sa)	-35
Domestic trading activity (sa, past)	-11
Domestic trading activity (sa, expected)	0
CUBO (actual)	92.4%
Avg selling price – next 3 months	7

Not getting down to business

The bottom line

QSBO has deteriorated further. Activity indicators suggest downside risk to our (already subdued) growth forecasts.

- Headline confidence remains in pessimistic territory, slipping further to its lowest level since March 2009.
- Domestic trading activity, which has been providing a decent steer on economic growth lately, suggests growth could disappoint in Q3. In fact, taken at face value it suggests annual growth of close to 1%.
- That said, some indicators for Q4 did bounce, including activity, profitability, and employment intentions, suggesting activity may stabilise towards the end of the year.
- Several measures of capacity eased, which doesn't bode well for the inflation outlook.
- Profitability continues to be squeezed, although both costs and pricing intentions eased in Q3, suggesting little pipeline inflationary pressure.

Key points

The NZIER's Quarterly Survey of Business Opinion (QSBO) for Q3 was weaker than our own monthly ANZ Business Outlook. Businesses are down in the dumps and bright spots are becoming fewer and further between. Views on the general business situation softened to a net 35% of respondents feeling pessimistic in Q3, a deterioration from 34% in Q2. Profit squeeze (reflecting rising input costs and difficulty passing these on) and an increasingly uncertain demand outlook continue to weigh. By sector, pessimism amongst manufacturers led declines, corroborating what we've seen in the recent PMI data.

But it was businesses' reported activity levels (the part of the survey that correlates pretty well with GDP) that came in very weak (weaker than our survey), and like the many other indicators we monitor, suggest the economy wasn't firing on all cylinders in Q3. Experienced domestic trading activity fell sharply in the quarter, from a net 4% of firms reporting a decrease in their own activity in Q2 to a net 11% in Q3. This suggests some downside risk to our expectation that annual GDP growth will pick up slightly in Q3 (from 2.1% in Q2 to 2.2%). In fact, taken at face value it suggests annual growth of close to 1%.

One bright spot in the report was the small bounce in activity, profitability, and employment expectations for the next quarter. Looking ahead to the December quarter, a net 0% of firms are expecting their own activity to expand, a lift from -5% in Q2, and consistent with a bit of stabilisation towards the end of the year.

While we are forecasting underlying economic momentum to continue slowing into early 2020, we expect the recent easing in financial conditions (with more OCR cuts to come as growth and inflation disappoint the RBNZ's expectation) to put a floor under things and even see growth begin to gradually recover from around mid-2020. That is, provided the net migration cycle doesn't turn too quickly, the labour market remains "tight", household sentiment remains buoyed, the global economy doesn't roll over, and the terms of trade remain elevated. Some of the recent data flow suggests there are a few big "ifs" in here.

In fact, there are a few worrying signals in today's QSBO in this regard, with firms experienced hiring falling to -10% from -6% in Q2. However, hiring intentions (for Q4) did bounce, from +6% to +11%.

Investment intentions in plant and machinery slumped, ignoring the RBNZ's pleas for more investment, with a net -3% of firms expecting to invest (down from +4% in Q2). Investment intentions in buildings plunged from Q2's +4% to -16%.

Consistent with the weaker read on activity, measures of capacity pressure all fell. Capacity utilisation ticked back down to 92.4% from 93.7% in Q2. Fewer firms reported capacity as a constraint, down to 13% from 15% in Q2. Labour became less of a constraint as firms found it easier to find both skilled and unskilled labour. These reads are consistent with our view that, while capacity stretch is likely to support stable domestic inflation in the very near term, pipeline inflation pressures are looking less assured as more slack opens up in the economy.

For the RBNZ, the inflation side of the QSBO report will be concerning. Pricing intentions slipped in Q3 from a net 13% to 7%, and experienced price rises also fell, from a net 12% to -1%. Cost pressures also dropped, with experienced costs down to a net 33% of firms reporting an increase (from 43%). Expected costs slipped a touch to a net 35% of firms expecting cost pressures to increase further, down from a net 40%. This suggests that while inflation looks like it might have held up in Q3, it won't be strong for long.

Taken together, experienced profitability remains weak, with a net 30% of firms reporting deterioration in the quarter (up from 27% in Q2). That said, firms were a bit more positive about the outlook in Q4, with expected profitability up to a net 18% expecting further declines (compared with 27% last quarter).

All up, today's release suggests the economy continued to splutter in Q3 and probably won't be firing on all cylinders come Q4 either. Firms are now reporting that sales (demand) are an increasing constraint on activity while capacity and labour constraints are easing. And with economic growth already running at a pace consistent with waning inflation pressures this will put the RBNZ on notice. We think that by November, the evidence will be clear that a significant growth rebound is not on the horizon, and that the RBNZ will cut the OCR once again. We have pencilled in two follow up cuts (February and May) which will take the OCR to just 0.25%. While the survey suggests that the outlook for Q4 is a bit brighter, the RBNZ will be wary that the best activity indicators from the QSBO are based on past activity, rather than expectations of the future.

Figure 1. GDP vs QSBO expected domestic trading activity

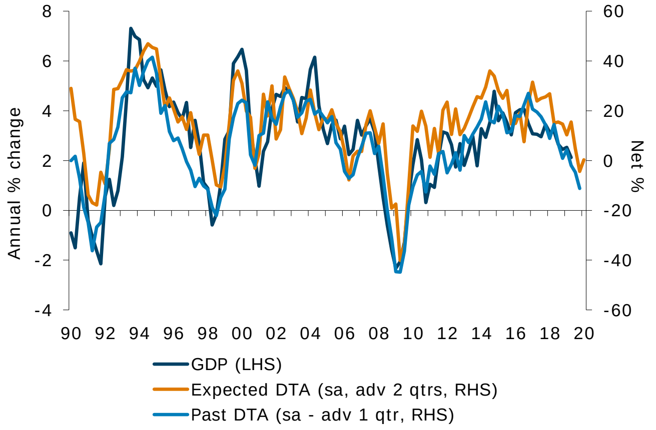


Figure 2. CPI vs pricing intentions

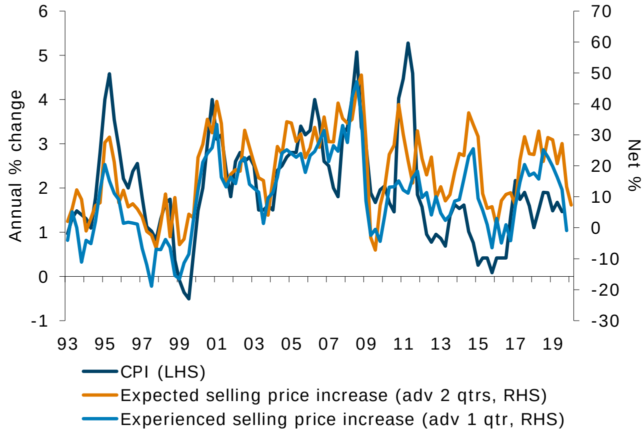


Figure 3. Indicators of resource pressures

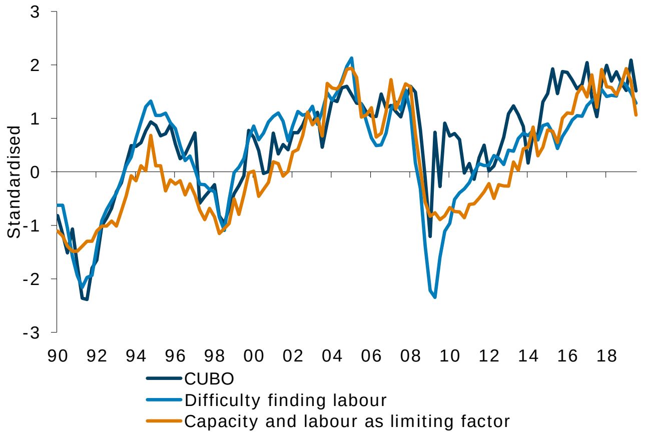
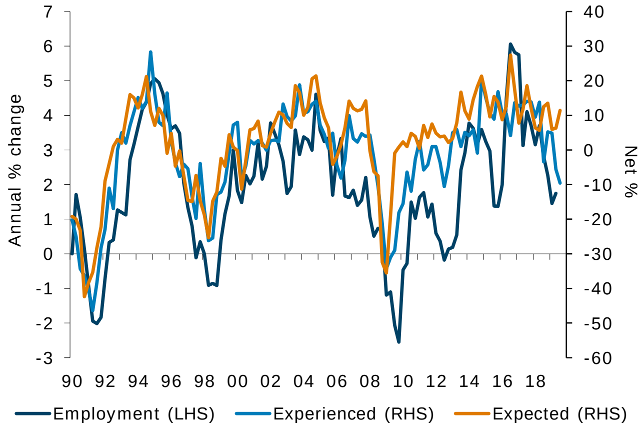


Figure 4. Employment vs QSBO employment intentions



Source: NZIER, Statistics NZ

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